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DE RUEHIN #1253/01 1560910
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R 050910Z JUN 07
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 5503
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOC/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3708
RUEHBJ/AMEMBASSY BEIJING 6865
RUEHUL/AMEMBASSY SEOUL 8688
RUEHGP/AMEMBASSY SINGAPORE 6917
RUEHKO/AMEMBASSY TOKYO 8824
RUEHML/AMEMBASSY MANILA 0070
RUEHJA/AMEMBASSY JAKARTA 4081
RUEHKL/AMEMBASSY KUALA LUMPUR 3749
RUEHHI/AMEMBASSY HANOI 3322
RUEHBY/AMEMBASSY CANBERRA 4522
RUEHWL/AMEMBASSY WELLINGTON 1792
RUEHHK/AMCONSUL HONG KONG 8115
RUEHGH/AMCONSUL SHANGHAI 1127
RUEHGZ/AMCONSUL GUANGZHOU 0300

UNCLAS SECTION 01 OF 02 TAIPEI 001253

SIPDIS

SIPDIS

STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH AND STRATFORD
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN AND NY FRB MARIA
BOLIS

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Taiwan Lifts Ban on New Bank Branches

SUMMARY

¶1. In May, Taiwan lifted a six-year ban on new bank branches. Regulators imposed the ban in order to encourage bank consolidation.

The new policy permits banks to open new branches, but only if they meet strict requirements. Most banks will still need to rely on merger and acquisition (M&A) to expand. END SUMMARY.

Ban on New Branches Lifted

¶2. On May 11, the Financial Supervisory Commission (FSC) lifted a ban on new bank branches that had been imposed in 2001. The ban was designed to encourage banks to acquire insolvent banks and with it their branches to expand their business. Under the ban, Taiwan auctioned off four insolvent banks placed in receivership, including three in 2004 and one in May 2007.

Strict Requirements

¶3. In place of the ban, FSC has now set stiff requirements for a bank to establish a new branch: a minimum capital adequacy ratio of 10%, a maximum non-performing loan (NPL) ratio of 2%, a minimum bad debt/reserve ratio of 50%, and a minimum 5% return on net worth over the past three years. Eligible banks may not have losses or regulatory violations over the past year, or any cumulative losses at the end of the previous year.

¶4. In addition, FSC will give priority to banks which have assisted resolution of insolvent financial institutions in the past and have a record of lending to small and medium enterprises.

Small Quota

15. The FSC has also set an annual quota of ten new branches for the entire banking community. An eligible bank may set up two branches in a year, and the number may increase to three if the new branches will be located in rural areas, or if the bank has assisted regulators to resolve problem financial institutions in the past.

Limited Number of Eligible Banks

16. Only 11 of the 41 Taiwan banks currently meet the FSC requirements. All 11 eligible banks submitted new branch applications to the FSC during May this year. The eleven banks and their ranking based on net worth follow:

--Bank of Taiwan (1)
--Mega International Commercial Bank (3)
--Land Bank of Taiwan (4)
--Taiwan Cooperative Bank (5)
--First Commercial Bank (6)
--Cathay United Bank (9)
--Taipei Fubon Commercial Bank (10)
--Shanghai Commercial Savings Bank (13)
--E. Sun Commercial Bank (14)
--Industrial Bank of Taiwan (17)
--Export-Import Bank of ROC (21)

Comment

17. The strict requirements and small quota on new branches will not satisfy the expansion desire of large banks. M&A will still be the

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main way for banks to expand.

YOUNG